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USDOC FOR 532/OEA/LHINES/ADYSON
USDOC FOR 3132 FOR FCS/OIO REGIONAL DIRECTOR PATRICK SANTILLO
BICE FOR OFFICE OF STRATEGIC INVESTIGATIONS

SIPDIS

E.O. 12958: N/A

TAGS: BMGT BEXP HK ETRD ETTC
SUBJECT: EXTRANCHECK: POST SHIPMENT VERIFICATION: EDAL ELECTRONICS
CO LTD

REF: A) USDOC 07199

1. Unauthorized disclosure of the information provided below is prohibited by Section 12C of the Export Administration Act.

¶2. As per reftel A request and at the direction of the Office of Enforcement Analysis (OEA) of the USDOC Bureau of Industry and Security (BIS), Export Control Officer Philip Ankel (ECO) conducted a post shipment-verification (PSV) at Edal Electronics Co. Ltd., No. 17, Wang Chiu Road 6/F, Continental Industrial Building, Hong Kong (Edal). The items in question for this PSV are various microprocessors exported to Edal on or about April 3, 2008. On the applicable shippers export declaration (SED), these items are classified under export control classification number (ECCN) 3A001 and, if properly classified, would be controlled for national security (NS) reasons. Based on documentation provided by the exporter, it appears that these items are of the class that may be exported license free to Hong Kong, but would require a license for export or reexport to mainland China because of their ability to function at extreme temperatures. The exporter was Rochester Electronics LLC of Newburyport, Massachusetts.

¶3. According to the Hong Kong Companies Registry, Edal has been in existence since 1988. Its paid up share capital is the Hong Kong equivalent of USD 12,500. The Hong Kong Companies Registry lists four Hong Kong residents as directors, namely Chan, Tak Chung Terry (HK ID G238949(4)), Chan, Tak Wah (HK ID E198464(4)), Chan, Tak Wing (HK ID E750017(7)) and Tam, Moureen (HK ID G503096(9)). Chan, Tak Wah is also a director of Edal Investment Limited in Hong Kong.

¶4. A review of the Edal's web site (www.edal.com.hk) reveals that Edal specializes in the distribution of electronic components. It has offices in Shenzhen and Xian, China. Related company, Telestar Electronics Ltd. is located in the same building as Edal but uses the same phone number contact as Edal (more on Telestar below).

¶5. It took some time to arrange a meeting with Edal to discuss the transaction. It appears that the initial person involved in the transaction had already left the company as had a second person initially tasked to respond to the inquiry. Eventually, on January 14, 2009, ECO visited Edal and met with Jean Yun, Senior Sales Executive. She stated that Edal is an electronic components distributor that sources such products for further reexport to mainland China and other countries. According to Ms. Yun, the end products for such components are televisions, video players and other similar electronics products. She stated that Edal is also a distributor for such companies as NXP, Philips and Infineon .

¶6. Ms. Yun further stated that Edal is a distributor for Rochester Electronics which focuses on discontinued and obsolete products. According to Ms. Yun, customers for Rochester products are in the oil equipment repair and telecommunications business areas. When asked about Telestar, Ms. Yun stated that this company is related to Edal (one family owns an interest in both companies). Telestar is

engaged in a similar line of business as Edal. Ms. Yun was unable to clarify the full relationship between the two companies nor was she able to clarify the underlying reason for two very similar companies to be in apparent direct competition.

¶7. Ms. Yun stated that Edal typically forwards order details to Rochester and, if no license is required, Rochester fulfills the order by shipping the goods to Edal. However, she noted that if a license is required (in instances where the item is destined to the mainland, for example), Edal often cancels the order because it is difficult to get a license and Edal typically loses this order as a result. Ms. Yun further stated that Rochester is aware of the final destination of products based on end user statements that Edal and Rochester require customers to complete for certain orders. In this instance, the Rochester end use document states that the end user is a company in Taiwan, namely Tai Chung Electronics. ECO has been unable to find any trace of this company, whether in Hong Kong or Taiwan.

¶8. On February 8, 2009, ECO and Commercial Assistant Carrie Chan visited the purported Hong Kong customer, G&L Co. This company is a sole proprietorship and trading company that has been in existence since 1997. The company headquarters consist of a one room office in an older, out of the way, shopping center. Mr. Ku, Oi Wang and his wife jointly run the business. According to Mr. Ku, they are a general trading company that has been in existence for some time. ECO notes that the company has no web presence. Mr. Ku stated that the company deals in a range of products. Its customers come to it by word of mouth.

¶9. As to the specific transaction in question, Mr. Ku stated that he is no longer able to reach the customer at the numbers provided to him. He further stated that no purchase order was received from the company. Rather, G&L generated a sales order based on a verbal

order from the customer. Mr. Ku stated that for products where there might be customs issues (later he clarified that this referred to electronic components) G&L will not export the items but requires that the buyer pick them up from his location or that they designate a Hong Kong address for pickup. From the face of the documents and from the conversation with Mr. Ku, it would seem that Mr. Ku purchased roughly USD 15,000 of nonrefundable electronic components from Edal on behalf of a buyer that he knew virtually nothing about.

Mr. Ku stated that he had done a previous order and, as a result, he was prepared to take the risk. ECO did not find Mr. Ku's answers to be credible and believes that Mr. Ku simply does not wish to disclose his mainland China buyer.

¶10. It appears to ECO that Edal was, in this instance, prepared to sell controlled electronic components to a Hong Kong trading company based on limited information about the customer and final end-use. ECO believes it is also quite likely that G&L is aware of the final destination of the items (that being, most likely, mainland China). In fact, G&L's business model is likely to source controlled items for mainland companies that are unwilling to order items directly in situations where a license may be required. Based on the information noted above, ECO recommends a close review of past shipments to Edal and G&L as well as Telestar. ECO recommends further outreach to Rochester Electronics to ascertain its knowledge of this transaction and to encourage it to police its distributors more closely. ECO notes that Rochester shipments have been the subject of multiple unfavorable end use checks implicating similar products and similar procurement tactics.